Payments International

Speaker Interview

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Q: What kind of Premium APIs do you think we are likely to see in the next 3 years?

A: All industries are increasingly driving towards the “API Mashup Economy”. Every online service (maps, language translation, flight information, …) is being made available for third party use by standard APIs and these are then being “mashed up” to provide new compound services. Your mobile offers information on your location (subject to your consent, of course) to others, Google offers information on the map of the area to others, etc. This is then mashed up by Uber which connects your location and the driver’s location with the optimal map route and a clever algorithm to provide the new taxi service. That is the new mashup economy based on standard APIs.

This open API economy is now hitting banks and financial services. Due to Open Banking, PSD2 and similar regulations and market pressure, banks are being forced to provide standard APIs for third parties. These allow access to users’ bank accounts (subject to their consent, of course), to their available balances, to transaction data and initiate payments.

Smart banks are embracing this new development and see the offer of standard banking APIs as an opportunity to offer new services in partnership with FinTechs, to promote the use of their own bank’s services when third parties mash up also bank accounts/payments/data into new compound digital end-user services. Indeed some banks see this development as an opportunity of putting banks in the centre of a new platform ecosystem and be the providers not only of financial services but also of trust and more.

Thus smart banks – who see themselves forced into having to offer APIs (for free) anyway – are beginning to offer further premium APIs (for a charge) to third parties. This will encourage new mashup services by third parties, new revenues and make banks the centre of the digital ecosystem.

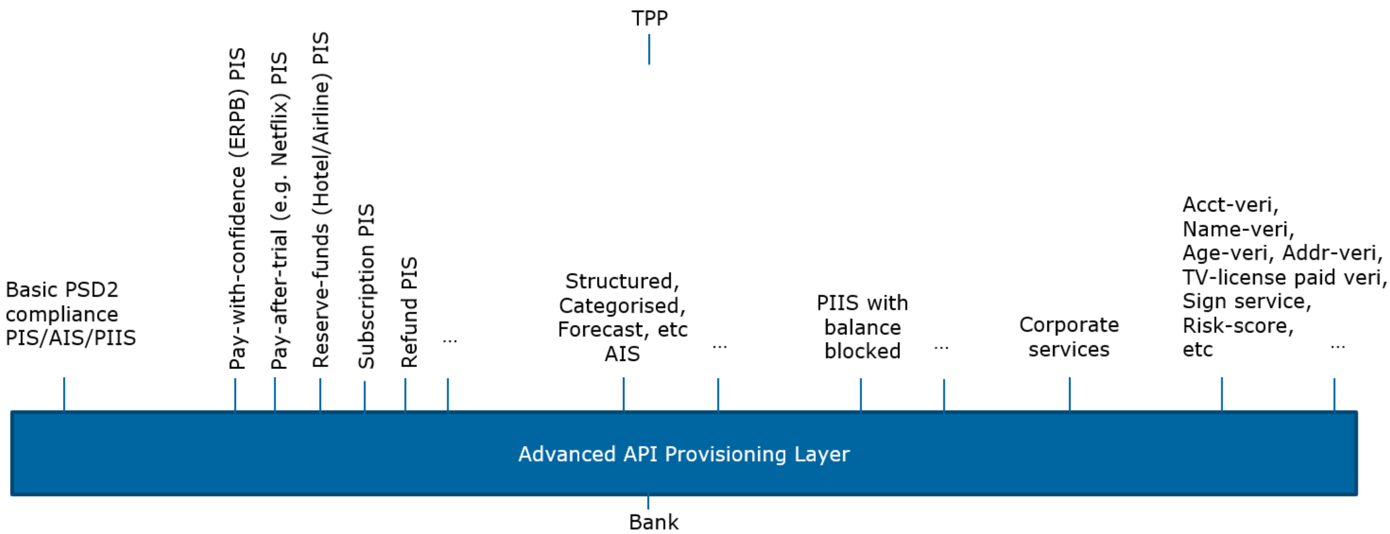


Fig 1: banks offering not only compliance but also value-added APIs

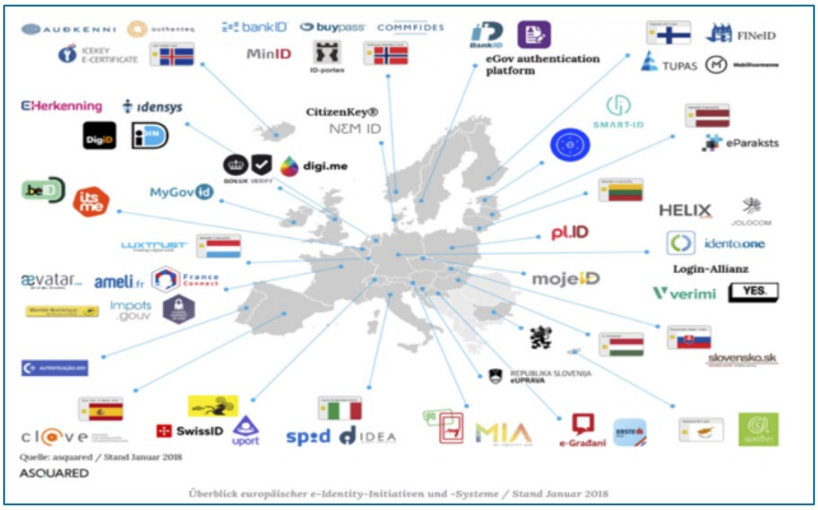
The above shows some premium APIs that are currently being considered/implemented. Beyond the basic compliance APIs, the banks offer value-added payment services (e.g. for Netflix-like subscription services), premium transaction data (e.g. categorized, cleaned, as structured XML rather than raw account data), B2B (likely the most valuable services - where the money is!) and identity APIs (e.g. to provide merchants with bank-verified shipping address, proof of age, etc).

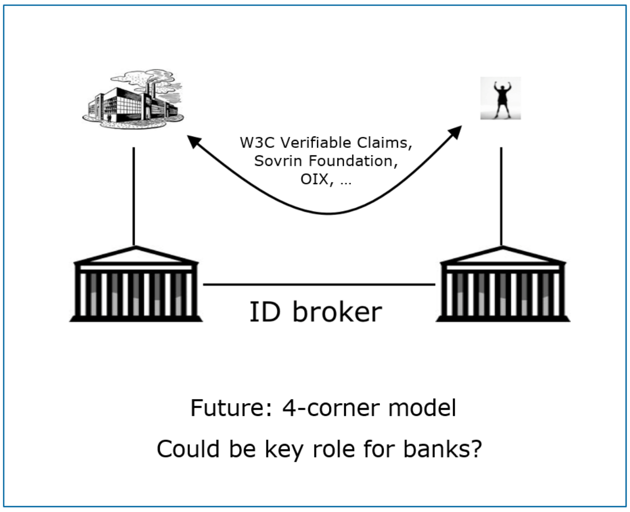
Q: How do you see digital identity changing the payments landscape?

A: Payments are a hugely profitable, stable, growing business. McKinsey says global payment revenues are growing faster than ever (+11% i.e. much more than typical GDP for years), is now a 2Tr$ industry and payments contribute 43% to bank revenues. However payment transaction processing fees are under pressure, some indeed tending towards zero, card business is coming under pressure with account-to-account instant payments and more. Thus banks are well advised to find new sources of revenue.

On particularly promising area is bank-based Identity. Currently banks are sitting on a treasure trove of KYC data which it has been very costly to build up – but is now largely used for compliance only. This can be turned into a business where banks offer identity (is it him? Is that his age? Is that his address? etc) for a fee to third parties – under user consent of course.

Also the many silos of identity providers (there are 58 competing identity solutions in Germany alone!) will need to be connected in a more structured, federated way in future. A four-corner model as we know it from payments springs to mind. Here identity information is routed from the user's bank to the relying party's bank across the bank network in a structured, scalable way.





Source: Asquared

Fig 2: from current silos to structured bank-based 4-corner identity scheme

Banks have all the assets (KYC data, network, security etc) and can thus position themselves as centres of trust and open new revenue streams. Examples of how this can be done for the benefit of all can be seen in the Nordics (Bank ID) and in Canada (PCTF).

Q: What are the obstacles to be overcome for the development of a vibrant API ecosystem?

A: The API mashup economy is alive and well (see first question above). However for a truly scalable, professional API ecosystem it is necessary to set up a scheme. Just putting an API out there and some SCA consent mechanism is not enough. Beyond the technical side, we need to address operational, functional and commercial issues in a structured way. We need to have systems for more automated onboarding of third parties, for more automated dispute handling (and there will be many disputes initially between merchants, banks, TPPs, users – these cannot be resolved only through calls to bank hotlines), joined up fraud management, refund possibilities, branding, governance to develop the system further and develop rules for liability, and more.

Fig 3: elements of an open banking scheme

Several market and regulatory initiatives are currently afoot to create a pan-European scheme based on instant and open banking. Instead of us always importing solutions from elsewhere (PayPal and card schemes from US, Alipay from China etc), we hope that this may be an opportunity for Europe – being world leader in payments/instant/open banking and privacy - to assert its autonomy and develop a solution that can be exported to US, China and the world.